

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 COME-00 AID-05 OES-05 CIAE-00

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R 281300Z JAN 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 3568

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL PORTO ALEGRE

AMCONSUL BELEM

AMCONSUL RECIFE

AMCONSUL SALVADOR

UNCLAS SECSTION 1 OF 2 BRASILIA 0752

E.O. 11652: N/A

TAGS: BEXP AFSP

SUBJECT: COUNTRY COMMERCIAL PROGRAMS FOR FY 77

REF: STATE A-7369 OF DECEMBER 10, 1975

1. THE COUNTRY COMMERCIAL ACTION GROUP (CCAG) MET ON JANUARY 19 TO CONSIDER RECOMMENDATIONS FOR THE FY 77 CCP FOR BRAZIL AS PER REFAIR. IN VIEW OF THE DIFFICULT IMPORT CLIMATE WHICH WE EXPECT TO PREVAIL DURING FY 77, THE CCAG RECOMMENDS THAT FEWER CAMPAIGNS (THERE ARE ELEVEN CAMPAIGNS IN THE FY 76 CCP) BE DEVELOPED TO ENABLE US TO CONCENTRATE OUR EFFORTS AND THAT GREATER FLEXIBILITY BE INTRODUCED THROUGH NON-CAMPAIGN INITIATIVES. FULL REPORT OF MEETING FOLLOWS SEPTTEL.

2. AS SUGGESTED IN REFAIR, DRAFT OF SECTION I (OVERVIEW) FOLLOWS BELOW AS WELL AS CCAG RECOMMENDATIONS FOR SECTION III. SECTION II (PERSONNEL RESOURCES LIST) REMAINS AS STATED PAGES 10-11 OF FY 76 CCP WITH THE ADDITION OF THE PRINCIPAL OFFICER IN SAO PAULO AS AN ADDENDUM TO THE
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"AVAILABLE RESOURCES LIST" AS PER TOP PARA PAGE 5 OF

REF A. IT IS ESTIMATED THAT PO AT SAO PAULO SPENDS 45 PERCENT OF HIS TIME ON CCP-RELATED ACTIVITIES. SHOULD THE RE-OPENING OF A CONSULATE IN BELO HORIZONTE BE APPROVED, RESOURCES LIST WOULD HAVE TO BE AMENDED.

3. DRAFT OF SECTION I - OVERVIEW - FOR FY 77 CCP AS FOLLOWS BELOW:

BRAZIL'S RAPID ECONOMIC GROWTH RATES OF THE PERIOD 1968 - 1974 HAVE SLOWED DOWN IN PART DUE TO THE EXTERNAL FACTORS OF HIGHER PRICES FOR IMPORTED OIL AND THE MODERATE RATE OF RECOVERY OF THE WORLD ECONOMY WHICH HAS LESSENED DEMAND FOR BRAZILIAN EXPORTS. HOWEVER, BRAZIL'S IMPORT SUBSTITUTION PROGRAM IS DESIGNED TO DEAL WITH THE FOREIGN EXCHANGE CONSTRAINT ON GROWTH WHILE AT THE SAME TIME MAINTAINING A MANAGEABLE LEVEL OF IMPORTS. OFFICIALS GOB POLICIES CONTINUE TO FAVOR A STRONG BUT CAREFULLY-DIRECTED IMPORT SUBSTITUTION PROGRAM, HEAVY RELIANCE ON A LARGE PUBLIC SECTOR INVESTMENT PROGRAM AND A DETERMINED EXPORT EXPANSION EFFORT. FAVORABLE FINANCING IS A KEY CONSIDERATION FOR THE GOB WHEN IMPORTING CAPITAL GOODS IN ORDER TO MAINTAIN A SATISFACTORY DEBT PROFILE AND AVOID DEBT MANAGEMENT PROBLEMS. US-BRAZILIAN COMMERCIAL TIES ARE STRONG. NOT ONLY IS THE UNITED STATES BRAZIL'S PRINCIPAL EXPORT MARKET BUT IS ALSO BRAZIL'S LARGEST SOURCE OF INVESTMENT CAPITAL AND IMPORTS. THE US INVESTMENT IN BRAZIL IS THE LARGEST IN LATIN AMERICA AND, UNDOUBTEDLY, ONE OF THE PRINCIPAL REASONS FOR THE CONTINUING LARGE FAVORABLE TRADE BALANCE THE US ENJOYS VIS-A-VIS BRAZIL. IN VIEW OF THE FOREIGN EXCHANGE CONSTRAINT ON THE COUNTRY'S GROWTH CITED ABOVE, THE CONTINUING TRADE INBALANCE WITH THE US, APPROXIMATELY \$1.5 BILLION IN 1975 AND LARGER THAN WITH ANY OTHER COUNTRY, IS A SOURCE OF CONSIDERABLE CONCERN TO THE GOB. THIS TRADE IMBALANCE COMBINED WITH US COUNTERVAILING DUTY ACTIONS COULD MAKE THE US INCREASINGLY VULNERABLE TO POSSIBLE COUNTER-ACTIONS BY THE GOB. BECAUSE OF CONTINUING TRADE IMBALANCES, THE GOB LOOKS FAVORABLY ON ARRANGEMENTS WHERE THE PRICE AND QUALITY OF THE GOODS PURCHASED

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ARE SECONDARY CONSIDERATIONS TO THE STATUS OF THE BILATERAL TRADE ACCOUNT AND THE POSSIBILITY OF REDUCING EXISTING BILATERAL DEFICITS THROUGH THE DIVERSION OF TRADE. THE PRINCIPAL USG ECONOMIC/COMMERCIAL OBJECTIVE IN BRAZIL IS TO PROMOTE A MUTUALLY BENEFICIAL EXCHANGE OF TRADE, INVESTMENT AND TECHNOLOGY IN ORDER TO NURTURE STRONG AND LONG-TERM ECONOMIC BONDS BETWEEN THE TWO COUNTRIES. SPECIFIC

GOALS ARE: 1) TO IMPROVE, OR AT LEAST MAINTAIN, THE US MARKET SHARE OF BRAZILIAN IMPORTS; 2) TO PROMOTE THE SALE OF US TECHNICAL SERVICES; 3) TO ENCOURAGE US LICENSING AGREEMENTS AND JOINT VENTURES WITH BRAZILIAN FIRMS WHEN IMPORT RESTRICTIONS PREVENT MARKET PENETRATION VIA DIRECT SALES; 4) TO MAINTAIN AN OPEN CLIMATE FOR US INVESTMENT; 5) TO EMPHASIZE POSSIBILITIES FOR INCREASED BRAZILIAN EXPORTS TO THE US UNDER THE GENERALIZED PREFERENCE SYSTEM. TIN SUPPORT OF US COMMERCIAL OBJECTIVES, PRIORITY EMPHASIS WILL FOCUS ON THE PROMOTION OF US DIRECT REDUCTION TECHNOLOGY AND EQUIPMENT FOR THE STEEL SECTOR, US TECHNOLOGY IN EXTRA-HIGH VOLTAGE TRANSMISSION SYSTEMS, AVIONICS AND GROUND SUPPORT EQUIPMENT, INVESTMENT OPPORTUNITIES FOR US FIRMS IN THE AGRIBUSINESS AREA, AND PROCESS CONTROL INSTRUMENTATION.

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4. DRAFT RECOMMENDATIONS FOR II - PROGRAMMED
ACTIVITIES - FOR FY-77 CCP:

1. DIRECT REDUCTION TECHNOLOGY AND EQUIPMENT FOR STEEL SECTOR. JUSTIFICATION: BRAZIL'S OVERALL STEEL EXPANSION PLAN OFFERS SUPERB EQUIPMENT OPPORTUNITIES, BUT ONE SPECIALIZED NEW AREA WHICH SHOULD BE STRESSED TO US SUPPLIERS IS DIRECT REDUCTION. BRAZIL IS A NEAR IDEAL MARKET FOR DIRECT REDUCTION, AS THE COUNTRY HAS PLENTY OF IRON ORE, BUT IS SEVERELY SHORT OF DOMESTIC RESOURCES OF COKING COAL FOR TRADITIONAL BLAST FURNACE-TYPE STEEL MAKING. WHAT IS ESPECIALLY IMPRESSIVE IN BRAZIL IS THE NUMBER OF DIFFERENT DIRECT REDUCTION PROCESSES WHICH ARE BEING CONSIDERED, INCLUDING THOSE FROM THE US. CONGEN RIO IS CURRENTLY SURVEYING THE STEEL INDUSTRY'S PLANS FOR DIRECT REDUCTION. TWO MILLS ALREADY EXIST (USING NON-US PROCESSES) AND PERHAPS 15 MORE WILL BE BUILT BY 1985. ONE PRIVATE CON-

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SULTANT PROJECTS BRAZIL'S SPONGE IRON PRODUCTION FROM DIRECT REDUCTION TO BE 2.3 MILLION TONS IN 1980 AND 5.5 MILLION TONS IN 1985, COMPARED TO ABOUT 150,000 TONS IN 1975.

2. TECHNOLOGY ON EXTRA-HIGH VOLTAGE TRANSMISSION SYSTEMS. JUSTIFICATION: THE MOST IMPORTANT TECHNOLOGICAL DEVELOPMENT TO BE IMPLEMENTED IN BRAZILIAN ELECTRIC ENERGY SYSTEMS WILL BE THE CONSTRUCTION OF EXTRA-HIGH VOLTAGE TRANSMISSION SYSTEMS. SUCH A SYSTEM WILL PROBABLY CARRY ITAIPU-GENERATED POWER TO THE CONSUMING CENTERS IN THE SOUTHEAST AND SOUTHERN REGIONS. MANY OF THE DAMS TO BE CONSTRUCTED IN THE NORTH WILL ALSO USE SUCH TRANSMISSION SYSTEM TO CARRY POWER TO DISTANT CONSUMING CENTERS.

3. AVIONICS AND GROUND SUPPORT EQUIPMENT. JUSTIFICATION: THIS AVIATION SECTOR HAS BEEN LARGELY EXEMPTED FROM IMPORT RESTRICTIONS CURRENTLY AFFECTING MOST OTHER IMPORTS INTO BRAZIL. BRAZIL'S DETERMINATION TO ESTABLISH AN AERONAUTICAL INDUSTRY, REINFORCED BY THE RECENTLY-SIGNED BILATERAL AIR-WORTHINESS AGREEMENT OFFERS AND OUTSTANDING OPPORTUNITY TO PROMOTE US COMMERCIAL INTEREST IN THIS IMPORTANT SECTOR TO THE BRAZILIAN ECONOMY.

4. INVESTMENT OPPORTUNITIES FOR THE US IN THE AGRIBUSINESS AREA. JUSTIFICATION: DEPARTMENT'S A-7008 OF NOVEMBER 17, 1975 CITED THE ESTAB-

LISHMENT OF A COORDINATED INTER-AGENCY US GOVERN-
MENT EFFORT TO GENERATE BOTH US VENTURE CAPITAL AND
EXPORT SALES IN ORDER TO DEVELOP MORE EFFECTIVE
US BUSINESS PARTICIPATION IN AGRIBUSINESS PROJECTS
OVERSEAS. BRAZIL'S STRONG POTENTIAL IN THE AGRI-
CULTURAL PRODUCTION SECTOR MAKES IT A LOGICAL
CANDIDATE FOR AN AGRIBUSINESS PROGRAM SUCH AS
DESCRIBED IN THE AFOREMENTIONED MESSAGE.

5. PROCESS CONTROL INSTRUMENTATION. JUSTI-
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FICATION: BRAZIL'S RAPID GROWTH IN MAJOR PRO-
CESSING INDUSTRIES INDICATE A STRONG EXPANSION
IN THE CONTROL INSTRUMENT MARKET. A CAMPAIGN
FOLLOWING UP ON FY-76 CCP CATALOG SHOW SHOULD BE
DEVELOPED.
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